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E.O. 12958: DECL: 10/23/2019

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: ECONOMIC MEASURES LACKING, SPENDING INCREASE
EXPECTED

REF: A. CARACAS 1311

[1](#)B. CARACAS 368

[1](#)C. 2008 CARACAS 1455

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

[1](#)1. (C) Summary: It appears the Venezuelan government (GBRV) does not plan to announce any significant new economic policy measures. A much anticipated press conference by leading economic officials produced few significant announcements, and subsequent announcements by other ministers were similarly anticlimactic. Despite the lack of significant new announcements, most analysts think the GBRV is gearing up to increase spending in the run-up to parliamentary elections slated for 2010. The 2010 budget presented to the National Assembly should not be taken as an reliable indication of overall spending levels in 2010, but it does illustrate the GBRV's desire to reduce funds destined for institutions not controlled by the central government, particularly state and local governments and universities. End summary.

New Economic Measures Prove Anticlimactic

[1](#)2. (SBU) As noted in ref A, a much-anticipated press conference held on October 8 by Minister of Planning and Development Jorge Giordani, Minister of Economy and Finance Ali Rodriguez, and Central Bank president Merentes produced few significant economic policy announcements. In the conference, the officials stated other ministers would announce economic measures pertinent to their areas in coming days. A subsequent press conference held by Minister of Science, Technology, and Intermediate Industries Jesse Chacon, Minister of Public Works and Housing Diosdado Cabello, and Minister of Basic Industries and Mines Rodolfo Sanz was similarly anticlimactic.

[1](#)3. (SBU) Taken together, concrete announcements by GBRV officials include new bond issuances; the creation of a fund to boost agricultural production; goals for the parallel exchange rate and for bank intermediation; subsidies for strategic sectors; the creation of a budget for CADIVI, the GBRV agency that administers Venezuela's foreign exchange controls; and the inauguration of 25 new factories. For the most part, these announcements were vague and/or have been announced or tried before. In the opinion of most local analysts, they will do little to address significant economic challenges facing the economy.

A Wave of Spending on the Way?

¶4. (SBU) In a recent economic forum held by local economic consultancy Ecoanalitica, 75 percent of participants agreed that the only economic measure the GBRV would undertake was to ramp up spending in the run-up to parliamentary elections slated for 2010. Pollster and economic and political analyst Luis Vicente Leon agreed the GBRV would boost spending, though he noted government spending was becoming less efficient (i.e., it would take more spending to achieve a given economic and/or political goal).

The 2010 Budget: Don't be Fooled

¶5. (SBU) In an apparent contrast to this expectation, the proposed 2010 budget presented by Rodriguez to the National Assembly on October 20 shows only a 2 percent increase in spending as compared to the 2009 budget as modified in March (ref B). Given inflation of 25 to 30 percent, a small nominal increase would mean a sharp cut in real terms. As we have noted before (ref C), and as highlighted by Ecoanalitica director Asdrubal Oliveros on October 21, the GBRV consistently lowballs initial revenue and spending estimates as a way of allowing subsequent discretionary spending through "additional credits." Entities not directly controlled by the central government and considered to be in the opposition are the most hurt by this practice. Press reports indicate the proposed 2010 budget contains a

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reduction even in nominal terms in spending on higher education and in central government transfers to state and local governments, relative to the modified 2009 budget. The text of the proposed 2010 budget also reportedly suggests the GBRV will look for ways to increase the proportion of these transfers that go to less populated states and municipalities (which, not coincidentally, are also more likely to be run by supporters of President Chavez).

Comment

¶5. (C) In ref A we offered our analysis that significant economic policy changes were unlikely because they would require President Chavez to lose face or the GBRV to give up control. This reasoning is echoed succinctly in a recent report from local economic consultancy Sintesis Financiera: "There is no way to get the economy to grow, fight inflation, and deepen the revolution all at once." We believe Chavez delegated the unveiling of the economic measures to his ministers because he realized it would be hard to convince people the measures would have a meaningful impact. (As noted in ref A, Chavez has already presented new economic measures to much fanfare twice in the last 16 months.) As to why Chavez helped create heightened expectations about the economic measures, we think he likely felt the need to give his constituents the impression he and his team are working to address the economic problems facing them. End comment.
DUDDY